India warns of debt burden

Relief measures remain a priority, the Indian representative makes clear at the IMF meeting.

'The problem of debt continues to bedevil the world economy," Indian reserve bank governor R. N. Malhotra told the members of the International Monetary Fund's Interim Committee, the main policy-making body of the IMF. With Finance Secretary S. Venkitaramanan, Malhotra led the Indian team at the recent World Bank/IMF annual meeting in Washington, D.C.

Malhotra pointed out that, in light of the continuing sharp deterioriation of the international economy, debt relief measures could not be confined to commercial debt, and proposed in particular that, as "an anticipatory measure," consideration be given to reducing the official debt burden.

"In many developing countries, the bulk of debt outstanding and disbursed is owed to official creditors. Much of this debt was contracted during the years when the world economy was buoyant, global trade was expanding rapidly, commodities were keeping pace with the general price level, and interest rates were low," Malhotra said, adding that on every count the world was a very much bleaker place today. If the international community continues to ignore the "vastly changed circumstances," said Malhotra, "the debt problem is bound to get worse."

India is just such a country where the bulk of assistance is in the form of government aid and World Bank/IDA funds, in addition to a $1.5 billion IMF loan whose repayment is due to start this year. Though India is unique in financing more than 90% of its development programs domestically, the marginal foreign component is critical to sustaining the current modernization push.

But studies project that to contain the debt-service ratio in the 20% range over the next five years, exports will have to grow by some 7-9% in real terms—a whimsical prospect under present conditions of world depression and growing advanced-sector protectionism.

Malhotra described how the decline in real output in the advanced sector in the last six months had hit the external payments position and gross prospects of the developing countries, aggravating their debt-servicing problems. He insisted that the policies pursued so far to reverse the world economic slowdown were inadequate.

The fact that the Interim Committee in the end refused to entertain any new measures for tackling the debt problem or take up the pressing issue of basic reform only points to the crisis that lies ahead. Even the committee's own pre-meeting report details the grim state of the world ecomomy and conditions faced by developing nations in particular.

According to the committee's Sept. 29 statement, the ratio of debt to export in the indebted countries "seems likely to rise again in 1986 to a higher level than that prevailing at the outset of the debt crisis." The statement also noted the deterioration of commodity prices.

Indian Finance Minister V. P. Singh had emphasized in an interview with this correspondent a year ago that India maintains that the debt problem is symptomatic of deeper problems in the world economy, namely, the inadequate flow of real resources to the developing countries and increasing protectionism among the industrial countries. "We strongly feel that the Fund needs to re-orient its present economic philosophy to be really helpful to the majority of its members," Singh told *EIR* (Jan. 10, 1986) at the time.

Today, resource flows are not only inadequte, they are negative. The report of the Group of 24 developing nations' finance ministers documents the high net transfer of resources from the developing to the developed countries that has been taking place—a fact which gives the lie to current policies. As the Group of 24 noted, unless this is reversed, the application of growth-oriented programs will remain rhetoric.

V. P. Singh reportedly pressed this and other points with World Bank and IMF officials he met in Washington, D.C. prior to the Bank/Fund meeting for an exchange of views on the world economy and the role of the two institutions in reviving economic growth. The Indian finance minister had stopped in Washington on the way to Delhi from the General Agreement on Tariffs and Trade meeting in Uruguay where he played a critical role.

According to the Press Trust of India, Singh also told the Washington money men that he hoped Bank/Fund collaboration would not lead to de facto cross conditionalities.

The issue of conditionalities was addressed directly in the development committee meeting by the Indian finance secretary, who flayed the World Bank and IMF for "excessive preoccupation" with conditionalities and monitoring of adjustment programs.